

Operational Review Task Force

Commonwealth Insurance Report















November 12, 2010

Preface

Governor Robert F. McDonnell established an Operational Review Task Force in September 2010 to look for cost cutting best practices in Virginia's operational costs, to eliminate inefficiencies and reduce excess waste, and to identify and implement best practices for state government. This Task Force was formed as a result of a recommendation by the Commission on Government Reform and Restructuring. The Task Force was chaired by Special Advisor to the Commission Bill Leighty, chief of staff to former Governors Mark Warner and Tim Kaine. The Task Force was charged with the evaluation of 12 areas of government to identify potential savings in operational costs and recommend strategies for realizing those savings. Each of the twelve Task Force teams includes a representative from local government, state government, the private sector and agency staff. Similar reviews were done during the previous administration. In addition to considering new recommendations for reducing operational costs, this Task Force followed up on the efficacy and implementation of previously recommended strategies.

The Task Force consists of a range of experts in state government, local government and the private sector. Twelve teams were assigned to look at one specific area of state spending each. Each team's task was to evaluate current operational costs, identify best practices for reducing costs and recommend a strategy for realizing a specific goal for savings. The twelve areas are as follows:

- | | |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
|  Energy |  Travel |
|  Water |  Fleet Management |
|  Waste Management |  Banking Services |
|  Phones & Data |  Accounts Receivable |
|  Printers, Copiers & Fax
Machines |  Surplus Property |
|  Asset Inventory &
Management |  Insurance (Health & Risk
Management) |

The Task Force was instructed to complete its work no later than November 12, 2010 with Chairman Leighty presenting the report and recommendations to the Governor's Commission on Government Reform and Restructuring at its next meeting. The recommendations will be considered for inclusion in a report from the Commission, due on December 1, 2010.

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Operational Review Task Force Team Members

Each Operational Review Task Force team was made up of a “State Sponsor” to lead the effort, plus an “Industry Leader,” a “Local Government Leader,” and “Agency Staff.” The state sponsor was ultimately responsible to the Governor for the product. The industry leader was to add support and expertise regarding what the private sector is doing in the particular area under review. The local government leader was also on board to assist in transferring best practices to and from localities and help increase the communication with local governments under this review. The “Agency Staff” was an integral part of the team as subject matter experts and provided the necessary staff resources to conduct the reviews. The Operational Review Task Force Team for Insurance included:

-  **State Sponsor - Sara Redding Wilson**
Director, Virginia Department of Human Resource Management
-  **Industry Leader - Scott J. McKay**
CIO and Senior Vice President (Technology and Operations),
Genworth Financial
-  **Industry Leader - Sena Kwawu**
Senior Vice President (Shared Services), Genworth Financial
-  **Local Government Leader - Christopher J. Carey**
Director, Virginia Association of Counties Risk Management
Programs, Inc.
-  **Local Government Leader - Greg Dickie**
Director of Membership Services, Virginia Municipal League, Insurance
Programs
-  **Agency Staff - Margaret Corwin**
Program Administrator, Virginia Sickness and Disability Program,
Virginia Retirement System
-  **Agency Staff - Manju S. Ganeriwala**
State Treasurer, Department of the Treasury
-  **Agency Staff - Don LeMond**
Director, Division of Risk Management, Department of the Treasury
-  **Agency Staff - Kristie McClaren**
Director, State Employee Workers' Compensation Services, Virginia
Department of Human Resource Management
-  **Agency Staff - Bob Young**
Deputy State Treasurer, Department of the Treasury

Goals and Objectives

The overarching goal of the Commonwealth Insurance Operational Review Team (Team) was to examine the various insurance-related programs operated by Virginia state agencies and respond to the following four tasks:

1. Determine total **spend** at the state level for each of the programs,
2. Suggest a set of “**best practices**” to employ to reduce costs,
3. Recommend a **reasonable level of consumption, price or both** that could be achieved if the best practices recommended were to be implemented, and
4. Recommend a reasonable level of **cost savings** that could be achieved.

The Team collected information from each of the Commonwealth's insurance-related programs in order to evaluate and respond to these tasks. This report provides recommendations that may help identify enhancements to the Commonwealth's insurance-related programs and leverage buying power to realize savings for the Commonwealth, local governments and political subdivisions. The programs reviewed fall into four categories:

 **Disability**

 **Long Term Care**

 **Health Benefits**

 **Property and Liability**

Findings

This operational review team was established to identify practices that could reduce costs and demonstrate to tax-payers that Virginia state insurance-related programs are efficient and effective, to identify areas where enhancements could be made, and to leverage the buying power of the Commonwealth. Information was gathered and analyzed during the time provided, and the findings were categorized into four sections: Spend, Best Practices, Recommendations and Cost Savings.

1. Spending

In FY 2010, the Commonwealth incurred almost \$1.3 billion in total expenses under the various insurance programs. Of that total, approximately \$1.2 billion covered the claims cost of about 8.5 million reported claims. The insurance premiums billed to agencies fell short by \$59 million of covering the total expense of the insurance programs.

FY 2010 Insurance Programs Claims, Costs, and Premiums

Program	FY 2010 Number Reported Claims	FY 2010 Claims Costs	FY 2010 Admin Costs	FY 2010 Premiums Paid by Program	FY 2010 Total Expense	FY 2010 Premiums Billed to Agencies
Health Insurance						
State Employee Health Benefits	6,614,319	\$828,249,519	\$56,859,549	N/A	\$885,109,068	\$842,674,074
The Local Choice	1,858,102	\$222,842,112	\$15,955,357	N/A	\$238,797,469	\$242,316,325
Disability Insurance						
Workers' Compensation	9,605	\$55,449,959	\$9,123,979	N/A	\$64,573,938	\$61,359,986
Short Term Disability	8,651	\$29,292,627	combined with LTD	N/A	\$29,292,627	combined with LTD
Long Term Disability	735	\$19,770,949	\$7,938,309	N/A	\$27,709,258	\$24,196,098
Long Term Care						
Long Term Care	12	\$105,246	\$678,917	N/A	\$784,163	\$6,824,540
Property & Liability Insurance						
Commercial Insurance						
Property, Boiler & Machinery	91	\$2,962,000	\$362,000	\$5,100,000	\$8,424,000	\$18,001,482
Fine Art (combined with Property)	-	\$0	\$0	\$412,375	\$412,375	\$0
Aircraft Liability & Hull	-	\$0	\$11,844	\$363,648	\$375,492	\$375,492
Watercraft Hull	-	\$0	\$10,364	\$133,851	\$144,215	\$142,721
Faithful Performance of Duty Bond	-	\$0	\$21,000	\$285,000	\$306,000	\$284,830
Terrorism Property	-	\$0	\$11,000	\$326,125	\$337,125	\$0
Self-Insurance						
Tort (General Liability)	469	\$4,124,000	\$413,000	N/A	\$4,537,000	\$4,591,000
Automobile Coverage	1,337	\$5,931,288	\$235,000	N/A	\$6,166,288	\$3,204,000
Medical Malpractice	68	\$750,000	\$127,000	N/A	\$877,000	\$4,247,000
Constitutional Officers/Regional Jail	258	\$3,634,000	\$257,000	N/A	\$3,891,000	\$3,393,000
Local Government Liability Plan	82	\$478,000	\$247,000	N/A	\$725,000	\$1,834,000
Totals	8,493,729	\$1,173,589,700	\$92,251,319	\$6,620,999	\$1,272,462,018	\$1,213,444,548

2. Best Practices

After reviewing the best practices for various types of insurance and much discussion, the Team identified the top ten best practices which were applicable to all the various types of insurance.

Top Ten Best Practices for Insurance Programs

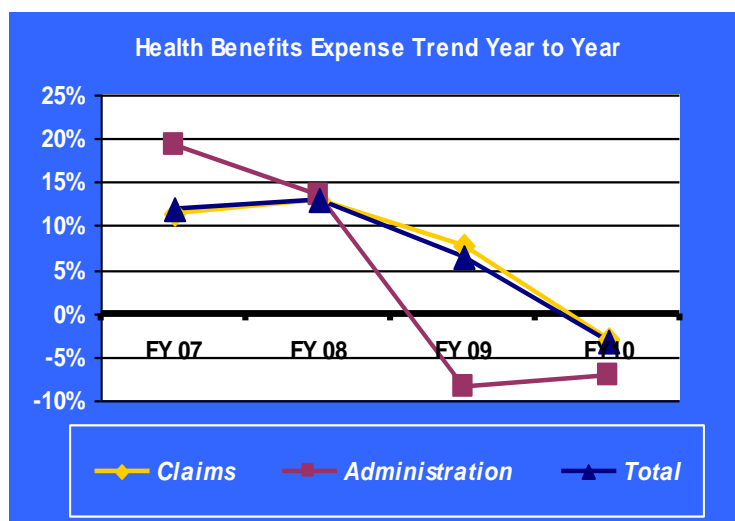
1. Establish a management-driven focus on safe operational practices
2. Create operational policies and procedures that define an effective and safe workplace environment
3. Set clear employee goals that permit objective evaluation and accountability
4. Provide adequate funding to all programs through actuarial studies and audits to ensure sustainability
5. Review program-controlled management viability against outsourcing operations to maintain the most appropriate service levels
6. Coordinate appropriate program areas to effectively control operational costs and exposures
7. Design a coverage program that permits staff to continually evolve their approach to exposures and offer best options over time in a changing environment
8. Deliver the highest level claims management either by choosing the best third party administrator or hiring the most competent staff and effectively training them to established policies and procedures
9. Integrate loss control services that encourage operational risk reduction and provide support in areas with large exposures or losses
10. Communicate purpose, goals, and methods on an ongoing basis to program recipients and potential subscribers

The Commonwealth has performed well in a number of areas, and has an opportunity to improve in others.

Health Benefit Plans

By far, the state largest insurance spend is with the Health Benefits Programs with over \$1.1 billion in combined total cost for the State Employee Health Benefit plan and The Local Choice plan. Since the health benefits plans are undergoing a review in conjunction with the Virginia Health Care Initiative, changes to the plan will be addressed in that forum rather than in this review.

Operating expenses for the state health benefits program were down 3.3 percent in fiscal year 2010 for the first time in a decade. Decreased expenses were due primarily to greater individual responsibility for health care. Administrative expenses dropped 7.6 percent from the prior year, the plan's total claims costs per employee decreased 2.4 percent, and total claims costs were down 3.0 percent.



To reduce **medical expenses**, the program has focused on wellness and preventive care, financial incentives, weight management and helping members to better control lifestyle-related and chronic illnesses. The program also has implemented higher copayments for expensive specialty prescription drugs, and has required physician approval for dispensing many high cost brand name drugs.

Obesity is a significant state and national issue. As part of plan funding issues, a proposal was made during the 2009 legislative session to eliminate coverage for gastric bypass surgery. As an alternative, the General Assembly requested a new 12-month pre-surgery pilot program that was launched in February 2010. Claims expense for this type of surgery, including traditional bariatric surgical procedures and lap band surgery, grew 24 percent between FY 2006 and 2008. Costs were projected at \$12 million by the end of the 2011 plan year. The pilot's goals were to improve these patients' chances for successful surgery and to prepare them for the lifestyle changes associated with having the procedure. An analysis of gastric bypass surgery claims and claims cost for six months before surgery began (September 2009—February 2010) compared to six months after the program introduction (March—August 2010), shows more than a 50 percent decrease in procedures and expenses. Six months before the program launch, 266 surgeries were performed versus 115 in the six months afterward. Claims expense in the six months before the program was \$2.8 million compared to \$1.4 million in the subsequent six months.

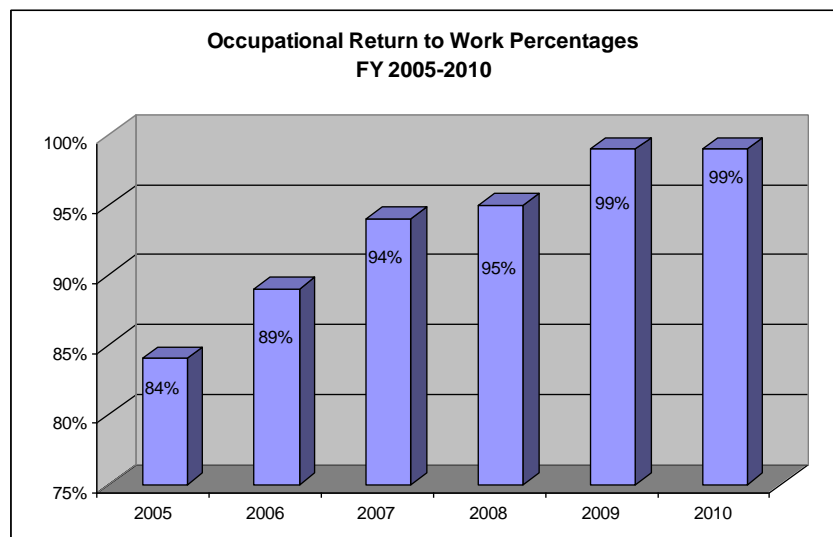
In response to a **Public Private Education Act** (PPEA) proposal, the Department of Human Resource Management launched the COVA Connect pilot program in 2010. The program is aimed at developing a healthier state workforce by integrating multiple aspects of health care management, such as the latest technology, health advocacy and one-stop customer service.

A **High Deductible Health Plan** was introduced in FY 2007 as another plan option to help stem rising health care costs among state employees. This plan type enables members to set up a portable Health Savings Account and to use the tax-deductible contributions to help pay for medical expenses. This program will be enhanced in FY 2011 to make it more attractive to state employees.

Disability Programs

Return-to-Work is an important step in controlling costs in disability programs. State Employee Workers' Compensation Services and the Virginia Sickness and Disability Program have focused on the return to work for injured and ill Commonwealth employees and the two programs work cooperatively on return to work efforts. First issued in 1999, Executive Order 109 (10) *Workplace Safety and Employee Health* directed Commonwealth agencies to focus attention on loss trends and return-to-work, developing policies, goals and strategies to reduce occupational illnesses and injuries, and encourage early return-to-work for both occupational and non-occupational illness and injuries. And the results have been impressive.

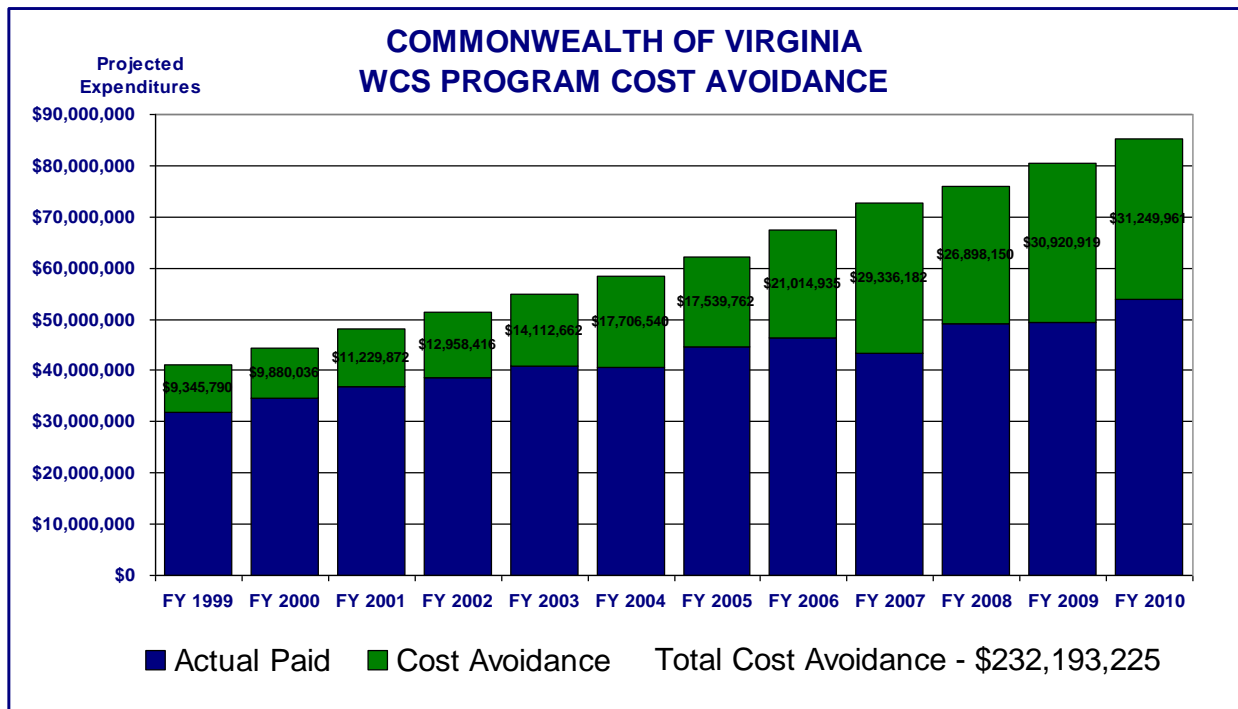
Workers' Compensation Services promoted a "work-as-therapy" model that resulted in a **99% return-to-work rate** in both FY 2009 and FY 2010, up from an 84% return-to-work rate in FY 2005. In addition, Workers' Compensation has experience-based premiums and agencies are permitted to retain 50% of their agency



program savings as part of a gain sharing program. This served as an incentive to agencies to manage the program effectively, to educate employees concerning workplace safety, and to return employees to work as quickly as possible.

Since the program was outsourced in 1998, these efforts have contributed to cost avoidance of over \$232 million when comparing actual results against actuarial projections. Virginia's State Employee Workers' Compensation Program was recognized nationally when it received the **Council of State Government Innovation Award**. And a number of states, including Massachusetts, North Carolina and the District of Columbia, have requested

advice and counsel from Workers' Compensation Services as they look for ways to enhance their own programs.

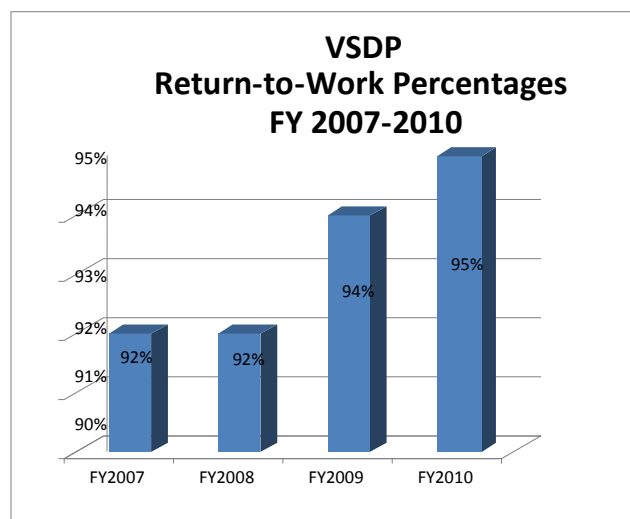


The State Employee Workers' Compensation Services went "green" and used **technology** to deliver measurable savings when it instituted document imaging on July 1, 2008. Imaged documents are audited and then destroyed. A total of 416 one-cubic foot boxes have been destroyed to date at a cost of \$2,912. Storing the same number of boxes for the minimum time required by state records storage standards would cost \$149, 260, resulting in a savings of \$146,348 to the program.

The **Virginia Sickness and Disability Program** had a 95% return-to-work rate in FY 2010, up from 92% in FY 2007.

Based on a program review and customer feedback, a number of changes have been made in the VSDP program that should reduce program expenses, including:

- The Virginia Retirement System reduced its **administrative fees** which should result in a cost savings to the program of over \$1 million in 2010.



- ✚ Legislative changes effective July 1, 2009 added a **one-year waiting period** for non-work related disability benefits for employees hired after that date. Based on the 2010 YTD hiring data, this plan change should produce estimated \$3 million agency cost avoidance in their first year.
- ✚ Legislative changes effective July 1, 2009 also reduced the **maximum short term disability benefit** to 60% of per-disability income for years two to five for employees hired after July 1, 2009. The elimination of periods paid at 100% and 80% will drive down average cost of claims.

The **Division of Risk Management** has established programs that take advantage of the insurance market, assist agencies in controlling their losses, and aid in the establishment of a risk management culture among state agencies.

- ✚ Reduced the FY 2011 premium for **property insurance** by \$1 million. The premium moved from \$5.1 million to \$4 million for \$1 billion in property insurance with no loss in coverage or increase in deductibles through strong negotiations.
- ✚ Provided a full premium holiday for FY 2011 to local governments and public service organizations enrolled in the **VaRISK 2 voluntary liability pool**, taking advantage of the excellent experience, loss control efforts and strong legal defense provided.
- ✚ Provided the Department of Corrections with a comprehensive **electronic fire control training program** that focuses on virtual training in fire suppression.
- ✚ Providing **infrared surveys of electrical systems** to all state agencies starting with the Virginia Community Colleges and the Department of Behavioral Health and Developmental Service. These electrical thermographic surveys scan distribution panels, motor control centers and other parts of the facility electrical system seeking “hot spots” indicative of problems that could cause fires or electrical failure.
- ✚ Provided a **fast water recovery and remediation service** to state agencies to permit a rapid response, clean up, drying and recovery from significant water damage from broken pipes, fire sprinkler discharge and other sources of flooding in buildings.

3. Recommendations

The state insurance programs are large and complex and generally well managed. As with any program, there are opportunities to strengthen and improve outcomes and results. The Team makes the following suggestions to enhance the Commonwealth's insurance programs.

Recommendation 1 – Fund Insurance Programs to a 51% Actuarial Confidence Level

Insurance programs work best when financially sound. Establishing a stable level of funding is critical. Failing to properly fund insurance programs reduces their ability to perform competently and increases cost.

Recommendation 2 – Create an “Employee One Stop” for disability management.

The Commonwealth of Virginia currently has multiple portals to disability programs which create confusion for both employees and management. There is an opportunity to institute a “one stop shop” which would be seamless for employees that would integrate intake on the front-end and data on the backend while retaining the program subject matter expertise. Such an approach would:

- ✚ Improve customer service for employees by eliminating program confusion, saving time to file and report on disability claims,
- ✚ Eliminate duplicate filings for a more efficient process, and
- ✚ Enhance data analysis and fraud detection by providing access to combined data that is unavailable in today's program silos.

Recommendation 3 – Eliminate the current stacking model of disability benefits for occupational injuries.

Currently the Commonwealth uses a stacking model for disability benefits where VSDP benefits are paid in addition to Workers' Compensation benefits. In the Commonwealth's model, participants in VSDP can receive additional benefits of up to 100% pay, tax-free for a period of time based on length of service. Since the employee may receive more “in the pocket” when disabled than working, this creates a disincentive to early return-to-work. The Commonwealth should reconsider the current model of disability benefits for occupational injuries, and should include this in any benchmarking study that it conducts.

Recommendation 4 – Reduce lost work days in disability programs.

A major cost driver to disability programs is the number of lost work days where the program pays for benefits, but the employer receives no productivity in return. The Commonwealth has been very successful in its return-to-work program, and should put forth the same level of effort to reduce the number of lost work days. A baseline should be established for lost work days and strategies developed to reduce them in both the Workers' Compensation and the VSDP programs.

Recommendation 5 – Enhance Commonwealth driver safety training.

Automobile Liability claims were the leading cause of loss in FY 2010 for the Division of Risk Management with 1,337 claims. These claims also had the greatest severity with \$5,432,000 in associated costs to the program. Similarly in FY 2010, State Employee Workers' Compensation Services received 392 claims for various types of vehicle incidents with \$2,754,773 in total incurred costs (paid to date plus future reserves).

Although many of these accidents may be attributed to the nature of the business (Virginia State Police, Virginia Department of Transportation), an opportunity exists to improve Commonwealth safe driver training to help prevent future accidents, potentially reducing cost to the Division of Risk Management for Automobile Liability and to State Employee Workers' Compensation Services for employee injuries sustained in these accidents.



Currently safe driver training is available from Department of General Services Office of Fleet Management Services and Workers' Compensation Services.

- ✚ The Department of General Services Office of Fleet Management Services (OFMS) provides safety training to state vehicle drivers and has established policies and procedures governing the use of state vehicles and state leased vehicles through Fleet Management. During FY 2009, OFMS offered state agencies on-site safety and policy training for their drivers and visited many of the Commonwealth's agencies to offer training classes. OFMS deployed an online driver safety class which is available to all agencies in the Commonwealth Knowledge Center.
- ✚ Workers' Compensation Services offers Commonwealth agencies a defensive driving program and other driver training videos through the program's free lending library. Additionally, an on-line, on-demand defensive driving program will be released through the DHRM Commonwealth Knowledge Center before year end. A live training version of this program is currently available upon request.

The Commonwealth should task the existing Uniform Accident Prevention Committee, a multi-agency team organized by the Virginia State Police, to coordinate and lead an integrated approach to driver safety training. The Team recommends required training before driving a state-owned or leased vehicle for the first time.

Recommendation 6 – Leverage vendor contracts to achieve volume discounts.

The Commonwealth should explore leveraging vendor contracts to reap the benefit of “the power of the purse” for the Commonwealth. As a pilot program, two opportunities within the Department of Human Resource Management should be evaluated for leveraged spend:

-  **Pharmacy:** The Health Benefits Program and the State Employee Workers' Compensation Program both use pharmacy vendors. The potential exists to leverage pharmacy spend between the two programs for greater volume discount. If successful, a shared contract may provide convenient, efficient volume discounting for other Commonwealth agencies and political subdivisions with similar need; for example, Department of Behavioral Health and Developmental Services, Virginia Department of Health, Department of Corrections, Juvenile Justice and local programs providing pharmaceuticals to clients.
-  **Actuarial Services:** Currently, State Employee Workers' Compensation Services holds a shared Actuarial Services contract with the Division of Risk Management. The Health Benefits Program also holds a contract with a different actuary. DHRM will explore the potential to procure a joint actuarial contract to include Health Benefits. There are likely other Commonwealth Insurance Programs using actuarial services that may also benefit from a shared contract.

Recommendation 7 – Permit local government and political subdivisions to participate in state insurance programs.

In the past, legislation has been proposed to allow local government participation in state programs, particularly the State Employee Health Benefits Program. Including local governments and political subdivisions in state plans would be a win-win for both local and state governments and would at a minimum reduce administrative expenses. If implemented, the potential exists for increased savings to all participants through discounts available to a larger insured pool. Particular attention should be paid to adverse selection since it is a key consideration to the viability of an insurance program. The devil is in the details, and careful evaluation and planning should be done to ensure a successful rollout.

Recommendation 8 – Conduct a benchmark study on insurance programs.

The organization of the Virginia insurance programs is unique. The DHRM State Employee Workers' Compensation Services and the VRS Virginia Sickness and Disability Program should conduct a benchmark of other state governments' disability management models to:

- ✚ Explore the program models and organizational structure of other state disability programs,
- ✚ Determine what those structures leverage in terms of savings and efficiencies,
- ✚ Receive feedback on an "Employee One Stop" approach for disability programs, and
- ✚ Identify any best practices to improve and strengthen the practices already in place.
- ✚ Explore early intervention methodologies, including such things as claim reporting, panel physician usage, and nurse case management usage.

4. Cost Savings

Additional work needs to be done to provide a potential cost savings from these recommendations. However, a rough estimate includes such savings as:

- Shared in-take services
- Eliminated duplicate entry
- Eliminated redundant tasks
- Converted lost work days to productive work days
- Reduced fraud
- Eliminated stacking model for disability benefits
- Reduced auto accidents
- Shared vendor services
- Reduced costs through volume discounts

The following information provides additional insight into the potential savings.

Shared in-take services, eliminated duplicate entry, eliminated redundant tasks

VSDP and Workers' Compensation Services estimate that it takes 9 to 10 minutes to report a claim for each program. In FY 2010, VSDP received 8,651 new short term disability claims, and 717 of those were also workers' compensation claims. Because these claims currently must be reported separately to each program, this redundant task takes twice as long as it would if there was a shared in-take service between the two programs. Based on FY 2010 figures, almost 120 additional man hours were required for reporting alone.

According to HR At-a-Glance for the period ending June 30, 2010 the median state classified salary was \$37,432. Converting to an hourly rate of \$17.99 and applying this to the estimated 120 additional man hours, a shared in-take service for VSDP and WC would save in the range of \$2,159 each year, and \$10,795 over a five year period everything else remaining equal. Additional financial benefit could be gained if the shared in-take also received Family and Medical Leave reports.

Converted lost work days to productive workdays

Both Workers' Compensation Services and VSDP have excellent return-to-work results, eventually returning 99% and 95% of claimants to productive employment respectively. WCS' model implemented in 2009 refers claims to field case management on day one of disability. A study completed in 2010 shows a 42.2% reduction in average days saved per claim over the experience in 2006. Beginning in 2006, a Return-to-Work Unit was established and began to promote the work-as-therapy model embraced by the program. Based on maximum and minimum compensation rates established by the Virginia Workers' Compensation Commission, the WCS program estimates that each day disability is shortened results in an average savings of approximately \$127.89 per claim or \$1,508,401 in the "referral to field on day one" model. The program received 1,085 lost time claims in FY 2010. A reasonable goal for a reduction in lost work days will be set after a baseline is established in FY 2011; however, even reducing one lost day per claim would result in nearly an additional \$140,000 in cost avoidance for the program and by reducing the number of lost days by a full work week would avoid \$705,425.

Unum began tracking saved lost work days in 2009. Using an average salary for employees covered by VSDP of \$43,545, VRS calculates an average daily wage of \$167.48. For the calendar year of 2009, RTW efforts resulted in saving 12,762 lost work days or \$2.1 million savings.

Reduced fraud

Consolidating disability data in a shared warehouse will allow for better trend analysis and tracking of claims across multiple programs. Although the incidence of detected fraud has been low, better analysis and tracking may serve to identify fraudulent activity earlier. The cost savings for this suggestion will be a coming attraction.

Eliminated stacking model for disability benefits

The current model which stacks VSDP benefits on top of statutorily required workers' compensation benefits for many employees has resulted in significant payroll expenditures for state agencies. Elimination of this practice would

produce savings of approximately \$500,000 each year for the agencies. Object code 1154, Supplemental Disability Benefits includes expenditures for supplemental workers' compensation award payments to state employees under the Sickness and Disability Program. Based on the FYE close reports the statewide expenditures to object code 1154 over the past three fiscal years were:

FY 10 \$486,218.36
FY 09 \$435,222.93
FY 08 \$467,646.71

VSDP administrative costs include fees to manage short term and long term disability claims. If work related claims were excluded from VSDP, the program's administrative fees would decrease by approximately \$241,704.

Total opportunity for the Commonwealth using both claim cost avoidance and reduced administrative costs would be \$741,704 annually or \$3,708,520 over five years.

Reduced auto accidents

According to the National Institute for Occupational Safety and Health (NIOSH), "Motor vehicle-related incidents are consistently the leading cause of work-related fatalities in the United States. Of approximately 5,700 fatalities annually reported by the Bureau of Labor Statistics, 35% are associated with motor vehicles. During the period 2002-2008, on average:

- 1354 workers died each year from crashes on public highways
- 324 workers died each year in crashes that occurred off the highway or on industrial premises.
- 358 pedestrian workers died each year as a result of being struck by a motor vehicle. "

The Division of Risk Management and Workers' Compensation Services reviewed claims reported to the two programs in FY 2010. Automobile Liability claims were the leading cause of loss in FY 2010 for the Division of Risk Management with 1,337 claims. These claims also had the greatest severity with \$5,432,000 in associated costs to the program. Similarly in FY 2010, State Employee Workers' Compensation Services received 392 claims for various types of vehicle incidents with \$2,754,773 in total incurred costs. Both programs note that the agencies with the highest frequency and severity of claims are Virginia State Police and Virginia Department of Transportation. These two agencies have unique risks that would not normally be addressed in a generic defensive driving program.

Excluding VSP and VDOT, the Division of Risk Management had 611 auto claims in FY 2010 with a payout of \$418, 236 and an average cost per claim of \$685. Workers' Compensation Services received 133 claims from "all other" agencies with a total incurred of \$1,213,416 and an average cost per claim of \$9,123. While the average cost per workers' compensation claim for a motor vehicle accident during the FY 2010 period was \$9,123, the incurred claim costs for individual claims ranges from \$0 to \$198,288.

The Team was unable to locate statistics supporting a percentage reduction in accidents as a result of driver safety training implementation. However, according to an April 2000 Nineteenth Judicial Circuit, Lake County, Illinois study, http://www.19thcircuitcourt.state.il.us/resources/Documents/Reports/ddc4_exe_c00.PDF , "drivers who did not participate in driver safety training were, over a ten year period of time **eight times more likely** to be involved in an accident than drivers who participated in driver safety training; and, **ten times more likely** to be arrested for a moving violation than drivers who participated in driver safety training."

If a conservative goal of 5% reduction in accidents is applied to the Commonwealth's experience for "all other" agencies, annual cost avoidance would be in the range of \$20,912 for DRM and \$60,671 for WCS, or \$81,583 annually and \$407,915 in a five year period for the Commonwealth.

Shared vendor services and reduced costs through volume discounts

Workers' Compensation Services identified the top 10 drugs prescribed under the program, and compared the WCS pricing to the pricing for the identical drugs under the Health Benefits plan. Based on this limited scope analysis, the WCS program could save over \$50,000 based on the price difference and quantity prescribed just for the top ten drugs. There is an opportunity for savings in the entire WCS occupational formulary.

A shared pharmacy contract may also have a beneficial impact on the Health Benefits plan with the increased volume from the Workers' Compensation program. More study is needed to determine the most cost beneficial structure for a shared pharmacy contract.

Conclusion

The Team will continue to work together through the recommendations, exploring the opportunities to enhance Commonwealth insurance programs and to leverage vendors across state programs and increase the “power of the purse” for state agencies and political subdivisions. Any cost savings that can be demonstrated as a result of the additional inquiries will be revisited in the Team’s final report.